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Pension World

The Magazine for Plan Sponsors and Investment Managers/ A Publication of Communication Channels, Inc.

RepublicBank Trust Company: Shifting to a National Focus

RepublicBank's Turner, Anderson, White, Brown and Pittman

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Connecticut's Henry Parker Fights Apartheid with Investment Clout

Special Section: 401(k)s Today

Pension World

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Cover: Left to right are RepublicBank Trust Company managers Jerry L. Turner, senior vice president and director, master trust services; H. Edward Anderson, vice chairman and chief investment officer; Richard S. White, chairman; Paul F. Brown, senior vice president and director, employee benefit division; and David J. Pittman, senior vice president and director, trust corporate services marketing.

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401(k)s today

Before you start... What are other companies doing?

When setting up a 401(k) plan, it helps to know what other employers have experienced.

Companies today can design a 401(k) pre-tax savings plan with much less guesswork than was necessary just one or two years ago. Surveys of plan experience provide a great deal of information that can be useful both in designing a new plan or modifying an existing one.

Many companies have implemented pre-tax savings plans since November 1981 when the proposed regulations on Section 401(k) were issued. A recent Hewitt Associates survey of 762 companies indicates that 58 percent had a pre-tax savings plan in place by the end of 1984. A separate Hewitt survey, conducted among Fortune-listed companies, shows that over 70 percent have pre-tax savings features in their capital accumulation plans. Thus, while most major companies have implemented 401(k) plans, there is still a significant number that have not. Those planning to implement a plan will be able to benefit from the experience of their predecessors. The purpose of this material is to address specifically how a company without a pre-tax savings plan can use the information to design a new plan, and how a company with a plan in place might use the data to modify current design.

Establishing objectives

The first step for a company is to establish its objectives for a pre-tax savings plan. For companies with an existing savings, thrift, or profit sharing plan, establishing objectives may be relatively simple—the key objective may be to convert current employee contributions to a pre-tax basis. If the company has no current plan, there may be more issues that need to be addressed, including:

- How does a 401(k) plan fit into the overall employee benefit program?
- What is the company's competitive position?
- What are the company's cost parameters?
- What is the primary role for the plan?

In today's environment, there are many alternative uses for 401(k) plans. Some of the typical objectives for companies addressing this issue include the following:

- Reduce or limit defined benefit pension obligations.
- Add or improve a capital accumulation plan.
- Encourage employee contributions to the retirement income system.
- Convert current employee contributions to a pre-tax basis.

For companies with plans in effect, it also may be worthwhile to reconsider plan objectives and design in light of recent experience. Many companies in 1982 and 1983 designed their plans conservatively because 401(k) plans were new and there was little experience with the 401(k) nondiscrimination test. With the advantage of 20/20 hindsight, many of these plans may have been more restrictive in some ares than necessary, and there may be areas in which restrictions could be eased. For example, employees could be allowed to change their contribution elections more frequently, because experience has shown that these provisions generally do not have a material impact on the over-

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all nondiscrimination test results, and greater flexibility is usually viewed favorably by employees.

Designing a plan

The major design issues for a 401(k) plan are relatively straightforward, including areas such as eligibility, company and employee contributions, vesting, investment options, and access to funds. The following material discusses each of the key design areas and sheds light on "typical" practice based on data from almost 200 plans in effect.

Eligibility. Eligibility is generally determined by the company's overall benefit practices. Age or service restrictions may be applied to limit administrative costs and exclude younger, shorter-service employees, who may be less likely to participate and thus limit the pre-tax savings opportunities for others. Most organizations are using a service restriction and have moved away from using age restrictions in 401(k) plans.

"The amount of the company contribution is perhaps the key element in plan design."

Company Contributions. The amount of the company contribution is perhaps the key element in plan design. It determines the company's overall cost for the plan and is a major factor in influencing employee participation. A company contribution can provide a strong incentive for employees to participate, because a match on employee money provides an immediate return.

Eighty-four percent of the companies in the Hewitt Associates survey of two hundred 401(k) plans use a matching feature. The level of the match varies as indicated in Table 1. Half the companies (50 percent) match employee contributions up to six percent of pay. Only seven percent of the companies match a higher amount. The match is generally a percentage of pay but could be a flat dollar amount, profit-related, or some combination of the two, depending on the company's objectives.

Table 1 Levels of Employer Matches to Employee Contributions

Employer Match per Dollar	Percent of 168 Plans
Less than $0.50	9
$0.50-< $1.00	45
$1.00	14
More than $1.00	1
Profit-related	16
Other (e.g., varies by years of participation or amount contributed)	15
Total	100

Table 2 Types of Vesting Offered in 401(k)s

Type of Vesting	Percent of 181 Plans
Graded (contributions vested on a per year of service/participation basis)	34
100% immediate	24
Class year (contributions vested on basis of year in which they were made)	23
Cliff vesting (contributions 100 percent vested after specified length of service/participation)	5
Other (mixture of any two vesting schedules described above)	14
Total	100

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"Clearly, it is important for a plan to have a competitive investment vehicle for employer and employee contributions."

Vesting in Company Contributions. Typically, 401(k) plans include a vesting schedule on company contributions to reward service. The most prevalent type of vesting is a graded schedule as shown in Table 2.

Employee Contributions. There are several decisions to be made with regard to employee contributions. Should pre-tax *and* after-tax contributions be permitted? What level of each should be permitted? Should both types of contributions be matched? The appropriate answers to these questions will vary based on the company's objectives for the plan, work force characteristics, and prior plan history. Our survey shows that 78 percent of plans in effect offer employees the opportunity to contribute on a pre-tax basis as well as an after-tax basis. However, many of the newer plans are moving towards allowing only pre-tax contributions.

Investment Options. Clearly, it is important for a plan to have a competitive investment vehicle for employer and employee contributions. Many plan sponsors offer employees a choice of investment options with different levels of risk. However, the impact of additional investment options on participation may be small relative to that of a company match or easier access to funds.

Of the plans in the 1985 Hewitt Associates survey, 71 percent offered three or more investment options for employee money. For employer money, 46 percent of the plans offered only one investment option (typically company stock), while 59 percent of the plans offered two or more investment options.

Access to Funds. Access to funds is another item to consider in the design of a 401(k) plan. Currently there are two basic ways to provide employees access to these funds: in-service withdrawals and loans. A majority of the plans (87 percent) in the survey offer financial hardship withdrawals. Typically, hardships are defined as the purchase or renovation of a primary residence, educational expenses, or uninsured medical expenses. In addition, the study shows that plans offering hardship withdrawals experienced a nine percent higher participation rate than those without hardship withdrawals.

Loan features provide an alternative method for offering employees in-service access to funds. A loan provision also helps preserve the long-term retirement savings objectives of most companies, as employees are required to pay back the loan. According to our survey, 36 percent of plans permit employees to borrow 401(k) money. Among these companies, the average interest rate for loans was 11.7 percent, a rate that is typically fixed for the term of the loan. Interestingly, among those companies with loan provisions, only 15 percent of the employees on average had a loan outstanding. Plans offering loans experienced a six percent higher level of plan participation than those without loans.

Employee Participation. As might be expected, participation levels are different among employees in the lower-paid two-thirds and the higher-paid one-third (these are the two groups that must be evaluated in the 401(k) nondiscrimination test). Of the lower-paid two-thirds of employees, 54 percent participated in the average plan, while 73 percent of the higher-paid employees participated. The average employee contribution for the lower-paid two-thirds was 3.4 percent of pay. For the higher-paid one-third, it was 5.4 percent. However, if the data are analyzed for *only those employees who elected to participate* (eliminating the noncontributors), the spread between participation rates for both groups is significantly reduced. The average contribution for the lower-paid two-thirds was 6.3 percent, while for the higher-paid one-third it was 7.4 percent. Initially, the narrowness of the spread between actual contributions in both groups surprised some

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Table 3 Maximum Employee Contribution Levels

	Plans With A Match (168 Plans)	Plans Without a Match (31 Plans)
9% or less	31%	28%
10%	21%	42%
11% or more	47%	25%
Other (e.g., flat dollar)	1%	5%
Total	100%	100%

plan sponsors. Apparently, many "lower-paid employees" are second wage earners and have as much or more discretionary income as some of the employees in the "higher-paid" category.

When designing the plan, it is important to look for ways to decrease the number of noncontributors, who are primarily in the lower two-thirds. The most effective way is to provide a company match. In addition, a company match may affect the level of employee contributions a company decides to allow to the plan. Many plans without a company match have set the maximum employee contributions somewhat lower than those companies with a match to ensure passing the 401(k) nondiscrimination test. A comparison is shown in Table 3.

Employee communication

Communication with employees is vital to the success of a pre-tax savings plan. When employees understand how to participate and are able to make wise choices on how much to save and where to invest the money, they are generally quite enthusiastic about their 401(k) plan. Why?

First, many companies "market" the plan with more inventive methods than they typically would use for other benefit plans. While employee meetings, newsletters, and brochures remain a common way to announce new 401(k) plans or explain benefit changes, some attention-grabbing alternatives are also being used. For example, an actor portraying Benjamin Franklin might appear in a videotape giving advice on saving, or token "banks" might appear on every employee desk to emphasize the importance of saving.

Second, to make thoughtful participation decisions, employees need to know how they personally will be affected. A 401(k) communication package often includes a calculation wheel that shows annual tax consequences of saving and future account growth. Telephone hotlines are becoming more common as a way to answer employees' individual questions. In short, companies are going to great lengths to communicate 401(k) plans.

Conclusion

Pre-tax savings plans offer employees significant advantages that are generally not available elsewhere. Most companies have implemented or are planning to implement plans of this type to provide these advantages to their employees. The plans also can serve many additional corporate purposes, such as reducing pressure on pension, and including employees in the retirement income system.

There are at present legal uncertainties surrounding 401(k) plans which stem from tax proposals now before Congress. (See accompanying story.) Although several key items face change, the basic advantages of pre-tax savings and capital accumulation are likely to be continued. Thus, these plans should continue to play a major role in the retirement income and capital accumulation system. The experience that has been gained since 1981, when individual salary reduction was first recognized, can be useful to companies in designing plans to meet company and employee needs. □

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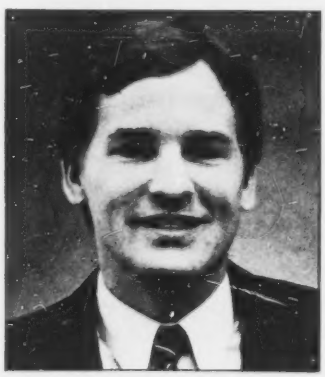

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Current Issues In Plan Design

State employee health benefit plans are zeroing in on cost containment

State employee health benefit plans continue to introduce cost management provisions and incentives for most cost effective health care. Despite this emphasis on cost management, the average state expenditure for employees' health benefits increased during the year ended January 1985 by roughly double the percentage rise in national medical care costs as measured by the Consumer Price Index.

These findings are based on Martin E. Segal Company's 1985 update of its survey of state employee health insurance plans. The company's most recent comprehensive survey, which was published in 1983, provides information on the coverage, benefits, financing and administration of the health benefit plans provided for employees of all 50 states and the Virgin Islands. In 1985 the survey was updated to reflect current contribution rates and new cost management efforts.

The three 1985 update tables contain a host of figures on contributions to state employee health benefit plans for January 1985 and January 1984. Nevertheless, additional contribution data could have been included for many states. The figures shown in the tables cover only the "basic plan" and do not include the various HMOs offered to state employees. In addition, for those states with multiple benefit plans, the tables show figures for only the "low" and "high" basic plans.

The 1985 update tables present contribution data for the basic plans covering employees of each of the 50 states and the Virgin Islands. Tables 1 and 2 show 1985 and 1984 contributions for Employee Only Coverage and Employee and Family Coverage, respectively. Table 3, which shows contributions for Retiree Only Coverage, applies to single retirees who are also covered by Medicare.

Employee Only Coverage

As of January 1985, 30 states were paying 100 percent of the cost for employee only coverage under at least one basic plan. Between 1984 and 1985, the distribution of state plans by the state's share of total cost for employee only coverage changed as follows: states paying 100 percent of the total cost remained at 30; states paying 90 to 99 percent increased from six to seven; states paying 80 to 89 percent increased from five to seven; states paying 70 to 79 percent decreased from six to three; and states paying less than 70 percent remained at four.

From January 1984 to January 1985, the percentage of the total cost paid by the state for employee only coverage increased in five states: (1) Hawaii—40 percent to 60 percent; (2) Ohio—73 percent to 84 percent for employees who elect the new less expensive plan; (3) Texas—90 percent to 100 percent for the more expensive plan; (4) Vermont—75 percent to 80 percent; and (5) Wyoming—74 percent to 94 percent. On the other hand, the state's share decreased slightly in California; in Maryland for the high basic plan from 85 percent to 75 percent; and in the Virgin Islands from 75 to 50 percent.

by **JOHN P. MACKIN**
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Under the New Mexico plan, the state's share of the total cost for basic coverage varies depending on the employee's annual salary. Effective July 1, 1984 New Mexico pays 75 percent for employees earning less than $15,000, 70 percent for $15,000 to $19,999, 65 percent for $20,000 to $24,999, and 60 percent for employees with annual salaries of $25,000 and over.

During the year ended January 1985, the total cost for employee only coverage increased in 39 states, remained the same in seven states, and decreased in five states.

Although averages can be misleading because they conceal the very wide diversity in state employee health plan benefits and costs, the average total cost for employee only coverage increased to $77.78 for January 1985 from $71.70 for January 1984—a percentage rise of 8.5 percent. The average state cost increased by a larger percentage than the average total cost—to $71.91 from $65.65 or by approximately 9.5 percent—because the average state share for the 50 states and the Virgin Islands combined increased from 91.6 percent in 1984 to 92.5 percent in 1985.

While the percentage changes in an individual state's costs varied substantially, the 9.5 percent increase in the average state cost for employee only coverage was much higher than the 5.8 percent rise in the medical care component of the CPI for All Urban Consumers.

Employee and Family

About one-fourth of the states pay for the full cost of health benefits for employees and their depen-

Table 1

Monthly Contributions to State Employee Health Insurance Plans: 1984 And 1985
Employee Only Coverage

State	Cost to employee		Cost to state		Total cost		Percent of total cost paid by state	
	1984	1985	1984	1985	1984	1985	1984	1985
Alabama	0	0	94.32	100.00	94.32	100.0	100.0%	100.0%
Alaska	0	0	184.57	184.57	184.57	184.57	100.0	100.0
	0	0	234.84	234.84	234.84	234.84	100.0	100.0
Arizona	1.00	1.00	67.90	79.46	68.90	80.46	98.5	98.8
Arkansas	20.84	23.64	48.00	55.00	68.84	78.64	69.7	69.9
California	9.19	11.90	76.00	86.00	85.19	97.90	89.2	87.8
	24.26	37.17	76.00	86.00	100.26	123.17	75.8	69.8
Colorado	12.00	12.00	53.12	53.12	65.12	65.12	81.6	81.6
Connecticut	0	0	79.98	84.69	79.98	84.69	100.0	100.0
Delaware	0	0	64.32	77.80	64.32	77.80	100.0	100.0
	16.92	19.52	64.32	77.80	81.24	97.32	79.2	79.9
Florida	13.28	15.18	59.50	65.20	72.78	80.38	81.8	81.1
Georgia	13.10	13.60		62.95	69.30	76.55	81.1	82.2
		26.65	56.20	62.95		89.60		70.3
Hawaii	23.58	17.36	15.98	26.04	39.56	43.40	40.4	60.0
Idaho	0	0	73.10	73.10	73.10	73.10	100.0	100.0
Illinois	0	0	75.56	77.56	75.56	77.56	100.0	100.0
Indiana	1.58	1.58	62.88	72.45	64.46	74.03	97.5	97.9
Iowa	19.60	23.34	71.32	79.92	90.92	103.26	78.4	77.4
Kansas	0	0	84.78	83.42	84.78	83.42	100.0	100.0
Kentucky	0	0	49.00	53.82	49.00	53.82	100.0	100.0
Louisiana	39.52	39.52	39.52	39.52	79.04	79.04	50.0	50.0
Maine	0	0	58.20	67.08	58.20	67.08	100.0	100.0
Maryland	10.20	10.74	57.88	60.86	68.08	71.60	85.0	85.0
	11.12	20.58	63.00	60.86	74.12	81.44	85.0	74.7
Massachusetts	9.55	9.87	85.98	88.82	95.53	98.69	90.0	90.0
Michigan	10.38	11.12	93.41	100.14	103.79	111.26	90.0	90.0
Minnesota	0	0	69.50	73.00	69.50	73.00	100.0	100.0
Mississippi	0	0	48.80	58.80	48.80	58.80	100.0	100.0
Missouri	0	0	64.00	64.00	64.00	64.00	100.0	100.0
Montana	0	0	75.00	93.70	75.00	93.70	100.0	100.0
Nebraska	0	0	38.05	41.25	38.05	41.25	100.0	100.0
	10.97	11.89	41.02	44.47	51.99	56.36	78.9	78.9
Nevada	0	0	103.50	124.20	103.50	124.20	100.0	100.0
New Hampshire	0	0	56.33	61.03	56.33	61.03	100.0	100.0

dents, but almost half pay less than 70 percent of the total cost for family coverage. The distribution of state plans by the state's share of the total cost for employee and family coverage changed only slightly between 1984 and 1985.

Twelve states pay 100 percent of the cost for family coverage under at least one plan. They are Alaska, Delaware, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Oregon, Pennsylvania, Rhode Island, Washington and West Virginia. The number of states paying 90 to 99 percent of the cost of employee and family coverage remained at five between 1984 and 1985. Those paying 80 to 89 percent increased from four to six; those paying 70 to 79 percent dropped from seven to six; and those paying less than 70 percent dropped from 23 to 22. In January 1985, nine of these 22 states paid less than 40 percent of the total cost for family coverage.

Between 1984 and 1985 the state's share of the total cost for employee and family coverage increased in 16 states, remained the same in 28 states, and decreased in seven states. Examples of states that increased their share include: Hawaii—40 percent to 60 percent; Montana—68 percent to 73 percent; Nevada—52 percent to 59 percent; South Carolina—47 percent to 51 percent on the low option plan; Vermont—75 percent to 80 percent; and Wyoming—37 percent to 47 percent. States that decreased their share include: Mississippi—43 percent to 40 percent; Texas—75 percent to 50 percent on the low option plan; and the Virgin Islands—39 percent to 27 percent.

For the 50 states and the Virgin Islands, the *average* total cost for family coverage increased by approximately nine percent to $175.27 for January 1985 from $160.80 for January 1984. Although the share of the total cost paid by the state varies from 100 percent to less than 40 percent, the average state share for the 51 plans combined was 71.9 percent in 1985 compared to 70.7 percent in 1984. The average state cost for family coverage was 10.7 percent higher in January 1985 ($126.00) than in January 1984 ($113.77); the percentage increase in the average state cost for family coverage was almost double the 5.8 percent rise in national medical care costs as measured by the CPI.

Among the 39 state plans where employees contribute for employee

Table 1 **Employee Only Coverage (Cont'd)**

State	Cost to employee 1984	Cost to employee 1985	Cost to state 1984	Cost to state 1985	Total cost 1984	Total cost 1985	Percent of total cost paid by state 1984	Percent of total cost paid by state 1985
New Jersey	0	0	55.38	58.93	55.38	58.93	100.0%	100.0%
New Mexico	19.57	17.27	29.34	51.79	48.91	69.06	60.0	75.0
	25.29	27.63	37.93	41.43	63.22	69.06	60.0	60.0
New York	0	0	44.84	74.44	44.84	74.44	100.0	100.0
	7.76	9.28	69.88	83.57	77.64	92.85	90.0	90.0
North Carolina	0.25	0.25	48.05	48.05	48.30	48.30	99.5	99.5
North Dakota	0	0	50.00	50.00	50.00	50.00	100.0	100.0
Ohio	25.50	12.75	68.95	68.95	94.45	81.70	73.0	84.4
		25.50		68.95		94.45		73.0
Oklahoma	0	0	100.26	115.31	100.26	115.31	100.0	100.0
Oregon	0	0	80.71	89.51	80.71	89.51	100.0	100.0
—BUBB Plan	0	0	115.02	136.70	115.02	136.70	100.0	100.0
Pennsylvania	0	0	49.17	54.30	49.17	54.30	100.0	100.0
	0	0	64.58	67.05	64.58	67.05	100.0	100.0
Rhode Island	0	0	52.28	52.15	52.28	52.15	100.0	100.0
South Carolina	0	0	50.37	58.21	50.37	58.21	100.0	100.0
	6.56	6.56	50.37	58.21	56.93	64.77	88.5	89.9
South Dakota	0	0	49.36	50.72	49.36	50.72	100.0	100.0
Tennessee	17.45	20.07	40.71	46.82	58.16	66.89	70.0	70.0
Texas	0	0	66.73	66.29	66.73	66.29	100.0	100.0
	7.89	0	72.00	86.27	79.89	86.27	90.1	100.0
Utah	7.37	8.25	66.30	74.25	73.67	82.50	90.0	90.0
Vermont	13.41	8.65	40.22	34.58	53.63	43.23	75.0	80.0
Virginia	0	0	77.80	65.52	77.80	65.52	100.0	100.0
Washington	0	0	130.30	141.65	130.30	141.65	100.0	100.0
West Virginia	0	0	73.90	79.95	73.90	79.95	100.0	100.0
Wisconsin*	7.64	7.91	68.69	71.21	76.33	79.12	90.0	90.0
Wyoming	24.16	5.94	70.00	100.00	94.16	105.94	74.3	94.4
Virgin Islands	9.36	27.41	28.06	27.41	37.42	54.82	75.0	50.0

*Effective January 1, 1985. State contribution is lesser of 90% of standard plan rate (shown in table) or 105% of lowest cost HMO in employee's residence area.

Where two sets of figures are listed for a state, they represent the "low" and "high" basic plans.

and family coverage, the *average* employee cost increased 4.7 percent to $64.43 for January 1985 compared to $61.51 for January 1984. In seven of these 39 states, employees with family coverage contribute more than $100 a month for the low option plan; and in 10 states the employee's out-of-pocket cost for family coverage exceeds $100 a month under the high option plan.

Retiree Only Coverage

Table 3 shows 1985 and 1984 contributions for single retirees age 65 and over with Medicare. Contribution data are presented for 49 instead of 51 plans, because Indiana and Nebraska do not offer retired employees the opportunity to continue to participate in the state health benefit plan.

Among the 48 states that make access to coverage available to retirees, 24 make no contributions toward the cost of retiree health care benefits. In the 24 states and the Virgin Islands where the state makes some contribution toward retiree coverage, the state's share as of January 1985 varied as follows: 15 states paid 100 percent of the cost of coverage for a single retiree; four paid between 80 and 90 percent; two paid 50 percent; and the remaining four paid less than half the total cost for a single retiree.

From 1984 to 1985 the cost of coverage for single retirees age 65 and over increased in 34 states, remained the same in 10 states, and decreased in five states.

As shown in Table 3, more than half the states (a total of 26 including Indiana and Nebraska) do not contribute toward the cost of retiree health care coverage. Over the next several years, these states are likely to see much greater pressures from retirees to pay for part or all of their health care coverage.

Cost management efforts

As part of Martin E. Segal Company's 1985 update of its survey of state employee health benefit plans, information was also obtained on the cost management steps that the various states have put into effect. Here is a brief overview of recent changes in state plan provisions and in the cost management techniques that are being commonly applied.

HMOs—Some 35 states offer employees the option of participating in one or more Health Maintenance Organizations, and in 12 of these states over 15 percent of the covered employees are enrolled in

Table 2

Monthly Contributions to State Employee Health Insurance Plans: 1984 And 1985
Employee And Family Coverage

State	Cost to employee		Cost to state		Total cost		Percent of total cost paid by state	
	1984	1985	1984	1985	1984	1985	1984	1985
Alabama	77.00	82.50	94.32	100.00	171.32	182.50	55.1%	54.8%
Alaska	0	0	184.57	184.57	184.57	184.57	100.0	100.0
	0	0	234.84	234.84	234.84	234.84	100.0	100.0
Arizona	61.44	70.50	128.14	150.98	189.58	221.48	67.6	68.2
Arkansas	44.72	47.52	48.00	55.00	92.72	102.52	51.8	53.6
	70.28	73.08	48.00	55.00	118.28	128.08	40.6	42.9
California	30.97	39.20	185.00	209.00	215.97	248.20	85.7	84.2
	51.79	100.88	185.00	209.00	236.79	309.88	78.1	67.4
Colorado	121.00	121.00	53.12	53.12	174.12	174.12	30.5	30.5
Connecticut	20.01	27.26	86.68	117.72	106.69	144.98	81.2	81.2
Delaware	0	0	158.18	191.98	158.18	191.98	100.0	100.0
	40.74	46.86	158.18	191.98	198.92	238.84	79.5	80.4
Florida	48.46	55.64	111.82	122.80	160.28	178.44	69.8	68.8
Georgia	39.30	39.80	101.65	107.15	140.95	146.95	72.1	72.9
		66.00		107.15		173.15		61.9
Hawaii	72.46	53.36	49.14	80.04	121.60	133.40	40.4	60.0
Idaho	66.74	66.74	73.10	73.10	139.84	139.84	52.3	52.3
Illinois	76.44	67.18	82.56	84.56	159.00	151.74	51.9	55.7
	129.62	123.02	82.56	84.56	212.18	207.58	38.9	40.7
Indiana	36.66	36.66	150.37	178.01	187.03	214.67	80.4	82.9
Iowa	138.76	149.28	80.14	99.20	218.90	248.48	36.6	39.9
Kansas	139.71	137.19	84.78	83.42	224.49	220.61	37.8	37.8
Kentucky	73.66	80.92	49.00	53.82	122.66	134.74	40.0	39.9
Louisiana	90.96	90.96	90.96	90.96	181.92	181.92	50.0	50.0
Maine	42.24	48.58	104.08	119.66	146.32	168.24	71.1	71.1
Maryland	29.08	31.62	164.82	179.18	193.90	210.80	85.0	85.0
	32.80	56.46	185.92	179.18	218.72	235.64	85.0	76.0
Massachusetts	20.06	21.32	180.52	191.83	200.58	213.15	90.0	90.0
Michigan	29.07	31.16	261.67	280.52	290.74	311.68	90.0	90.0
Minnesota	8.50	9.34	146.00	157.18	154.50	166.52	94.5	94.4
Mississippi	65.00	89.70	48.80	58.80	113.80	148.50	42.9	39.6
Missouri	109.00	109.00	64.00	64.00	173.00	173.00	37.0	37.0
Montana	42.00	40.70	90.00	110.00	132.00	150.70	68.2	73.0
Nebraska	0	0	136.24	147.68	136.24	147.68	100.0	100.0
	39.29	42.58	146.88	159.23	186.17	201.81	78.9	78.9

HMOs. In many cases the HMOs have gone beyond the conventional and offer more benefits than the standard plan.

In 1984 several states augmented the use of HMOs. For example, Kentucky added three for a total of four and New Jersey added one for a total of 11. Wisconsin now offers 20 HMOs in various geographic areas of the state, having added four effective January 1, 1985; about 60 percent of all active and retired Wisconsin employees participate in HMOs.

PPOs—Preferred provider organizations, which have generated wide-spread interest in the private sector, are beginning to be explored by the states. Utah established preferred provider arrangements with hospitals and surgical centers last year; for some preferred providers Utah uses a draft system under which direct payments are made to the provider and no claim form is required on the part of the employee.

In 1984 California added several PPOs, and Florida initiated PPOs in the metropolitan areas of Miami and Jacksonville. Florida reports that it plans to add other areas of the state as soon as new PPO contracts are finalized. Pennsylvania's preferred provider plan became effective on January 1, 1985, and Illinois reports that it expects to make arrangements for hospital PPOs to become effective later this year.

Although PPOs are being considered and discussed by several additional states, the six states with PPO agreements in place as of January 1985 are California, Florida, Minnesota, Nevada, Pennsylvania and Utah.

Comprehensive Plans—During the past two years, at least nine states have adopted new comprehensive plans to replace the former basic benefit and major medical plans: Idaho, North Dakota and Tennessee in 1983; Kansas, Louisiana, Missouri and Ohio in 1984; and Kentucky and Vermont effective January 1, 1985.

Although the provisions of the various comprehensive plans differ, all include a front-end deductible. The Kansas comprehensive plan adopted in 1984, for example, has a front-end deductible of $100 per

Table 2 **Employee and Family Coverage (Cont'd)**

State	Cost to employee 1984	Cost to employee 1985	Cost to state 1984	Cost to state 1985	Total cost 1984	Total cost 1985	Percent of total cost paid by state 1984	Percent of total cost paid by state 1985
Nevada	97.38	87.16	103.50	124.20	200.88	211.36	51.5%	58.8%
New Hampshire	0	0	152.09	169.78	152.09	169.78	100.0	100.0
New Jersey	0	0	135.44	143.83	135.44	143.83	100.0	100.0
New Mexico	35.74	45.23	53.60	135.67	89.34	180.90	60.0	75.0
	65.79	72.36	98.67	108.54	164.46	180.90	60.0	60.0
New York	0	0	120.54	158.95	120.54	158.95	100.0	100.0
	31.55	35.46	141.25	162.11	172.80	197.57	81.7	82.1
North Carolina	77.23	77.23	48.05	48.05	125.28	125.28	38.4	38.4
North Dakota	0	0	140.00	140.00	140.00	140.00	100.0	100.0
Ohio	61.13	30.57	165.27	165.27	226.40	195.84	73.0	84.4
		61.13		165.27		226.40		73.0
Oklahoma	108.00	108.00	100.26	115.31	208.26	223.31	48.1	51.6
Oregon	0	0	233.83	257.63	233.83	257.63	100.0	100.0
—BUBB Plan	0	0	115.02	136.70	115.02	136.70	100.0	100.0
Pennsylvania	0	0	126.07	131.35	126.07	131.35	100.0	100.0
	0	0	175.21	179.36	175.21	179.36	100.0	100.0
Rhode Island	0	0	137.49	136.88	137.49	136.88	100.0	100.0
South Carolina	57.12	57.12	50.37	58.21	107.49	115.33	46.9	50.5
	67.38	67.38	50.37	58.21	117.75	125.59	42.8	46.3
South Dakota	110.84	122.36	49.36	50.72	160.20	173.08	30.8	29.3
Tennessee	43.56	50.09	101.64	116.89	145.20	166.98	70.0	70.0
Texas	24.64	88.36	72.00	87.00	96.64	175.36	74.5	49.6
	142.33	144.48	72.00	87.00	214.33	231.48	33.6	37.6
Utah	19.50	21.82	175.33	196.39	194.83	218.21	90.0	90.0
Vermont	37.21	23.99	111.64	95.98	148.85	119.97	75.0	80.0
Virginia	62.40	48.30	146.24	118.48	208.64	166.78	70.1	71.0
Washington	0	0	130.30	141.65	130.30	141.65	100.0	100.0
West Virginia	0	0	173.95	187.95	173.95	187.95	100.0	100.0
Wisconsin[a]	18.82	19.33	169.34	173.93	188.16	193.26	90.0	90.0
Wyoming	117.92	111.42	70.00	100.00	187.92	211.42	37.2	47.3
Virgin Islands	44.15	74.68	28.06	27.41	72.21	102.09	38.9	26.8

[a]Effective January 1, 1985, State contribution is lesser of 90% of standard plan rate (shown in table) or 105% of lowest cost HMO in employee's residence area.

Where two sets of figures are listed for a state, they represent the "low" and "high" basic plans.

person ($200 family) and 80 percent/20 percent coinsurance with maximum limits on out-of-pocket costs of $200 per person and $400 for a family. In addition, Kansas added a dental plan with 50 percent coinsurance when it introduced the new comprehensive health benefits plan.

Because comprehensive plans generally apply the front-end deductible to all hospital, medical and surgical benefits, the introduction of such plans may raise questions regarding cost shifting versus cost management.

Deductibles and Co-payments—Beyond the steps taken with regard to comprehensive plans, several states have recently changed deductibles and co-payments. Examples include: Maryland—increased deductible to $100 per person ($300 family maximum); Montana—to $150 per person ($450 family maximum); and South Dakota—to $150 per person ($600 maximum co-insurance). When Virginia doubled the deductible to $200, it also reduced the inpatient deductible from $100 to $50 for same-day surgery.

South Carolina, on the other hand, reduced deductibles effective July 1, 1984; the hospital deductible was reduced from $25 to $15 per day (maximum 10 days), and the major medical deductible was reduced from $200 to $100 (limited to 3 per family). In addition, South Carolina established a new dental plan which became effective February 15, 1985.

Second Surgical Opinion Programs—Second opinion programs are now common features of state health benefit plans. In 1984 at least 8 states amended their plans to provide 100 percent reimbursement for second opinions: Alaska, Arizona, Mississippi, Missouri, New Mexico, Oregon, Pennsylvania and West Virginia. Utah's second opinion program, which has been in effect since 1983, not only pays 100 percent for second opinions but also pays a $25 incentive bonus to the employee. In some states—including Arizona, Virginia, and Washington—second opinions are mandatory for specified surgical procedures. States that are planning to implement second opinion programs this year include California,